

Message Text

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ORIGIN EB-07

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SP-02 AID-05 NSC-05 CIEP-01 TRSE-00 SS-15 STR-01

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COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 ERDA-05 DODE-00 FEAE-00 FPC-01 INT-05 PM-03

SAM-01 OES-03 (ISO) R

DRAFTED BY EB:TOENDERS:FAW

APPROVED BY EB - MR. ENDERS

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FM SECSTATE WASHDC

TO AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY BERN

AMEMBASSY STOCKHOLM

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY LONDON

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

AMEMBASSY OTTAWA

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY MADRID

AMEMBASSY ANKARA

AMEMBASSY OSLO

AMEMBASSY WELLINGTON

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION IAEA VIENNA

AMEMBASSY ALGIERS

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AMEMBASSY TRIPOLI

AMEMBASSY BEIRUT

AMEMBASSY KUWAIT

AMEMBASSY JIDDA
AMEMBASSY DOHA
AMEMBASSY ABU DHABI
AMEMBASSY TEHRAN
AMEMBASSY LAGOS
AMEMBASSY JAKARTA
AMEMBASSY CARACAS
AMEMBASSY LIBREVILLE
AMEMBASSY QUITO
AMEMBASSY PARIS
AMEMBASSY BRASILIA
AMEMBASSY NEW DELHI
AMEMBASSY KINSHASA

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BEIRUT POUCH BAGHDAD

E.O. 11652: N/A

TAGS: EFIN, ENRG'

SUBJECT: BACKGROUND ON ENERGY AND FINANCE

1. FOLLOWING IS TRANSCRIPT OF PRESS BACKGROUNDER GIVEN BY ASSISTANT SECRETARY THOMAS ENDERS MONDAY MARCH 3 AT THE DEPARTMENT. NOTE THIS MATERIAL SHOULD NOT BE ATTRIBUTED TO ENDERS DIRECTLY, BUT RATER TO "U.S. OFFICIALS." END
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2. PRESIDENT GISCARD D'ESTAING ISSUED INVITATIONS, I THINK, FOR A PREPARATORY MEETING OF CONSUMERS FOR APRIL 7. DO YOU AGREE WITH THAT? DID THE UNITED STATES AGREE TO THE TERMS? DOES IT MEAN THAT YOU HAVE NOW A COMMON POLICY IN GENERAL, AND ON THE FLOOR PRICE IN PARTICULAR?

3. A. WELL, WE'VE HAD A COMMON APPROACH WITH THE FRENCH
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GOVERNMENT TO THE DIPLOMACY OF THIS PROBLEM SINCE THE MARTINIQUE COMMUNIQUE. AND, AS YOU RECALL, THAT COMMUNIQUE INDICATED THAT CONSUMER SOLIDARITY IN THREE IMPORTANT AREAS SHOULD PRECEDE THE CALLING OF A PREPARATORY MEETING FOR A PRODUCER-CONSUMER CONFERENCE; THOSE AREAS WERE FINANCIAL SOLIDARITY, CONSERVATION, AND ALTERNATIVE SUPPLIES.

4. NOW, WE HAVE MADE VERY GOOD, VERY SATISFACTORY, PROGRESS

ON FINANCIAL SOLIDARITY. WE EXPECT THAT THE AGREEMENT IN PRINCIPLE ON THE 25 BILLION DOLLAR FUND WILL BE FOLLOWED UP VERY SHORTLY BY AN ACTUAL SIGNING. WE EXPECT THAT IN

THE COURSE OF THIS MONTH.

5. ON CONSERVATION, WE HAVE AGREEMENT, AS YOU KNOW, ON A TARGET REDUCTION OF 2 MILLION BARRELS A DAY FOR THE IEA COUNTRIES AS A WHOLE, DIVIDED EQUALLY BETWEEN THE UNITED STATES AND OTHER IEA MEMBERS.

6. AND WE HAVE A START ON THE THIRD MATTER -- THE DEVELOPING OF A COMMON POLICY ON ALTERNATIVE SUPPLIES. NOW, WE HAVE NOT YET REACHED AGREEMENT AMONG THE IEA MEMBERS ON WHAT THE COMMON POLICY ON ALTERNATIVE SUPPLIES WILL BE. WE ARE HOPEFUL THAT WE'LL BE ABLE TO DO THAT IN THE MEETING AT THE END OF THIS WEEK -- MARCH 6TH AND 7TH IN PARIS OF THE GOVERNING BOARD OF THE IEA -- AND, IF SO WE WOULD THEN DECIDE AS A BODY THAT THE INVITATIONS TO THE PREPARATORY CONFERENCE SHOULD BE ACCEPTED AND GO RIGHT ON TO IT ON THE TIMING THAT THE FRENCH GOVERNMENT INDICATES.

7. Q. SO WAS IT A SURPRISE TO YOU -- THIS MOVE?

8. A. NO SIR. THE FRENCH GOVERNMENT CONSULTED US IN ADVANCE ON ITS PROPOSAL.

9. Q. SIR, DO YOU AGREE WITH THE PEOPLE WHO ARE BEING INVITED -- WITH THE ORGANIZATIONS, COUNTRIES?

10. A. WELL, WE REALLY DON'T HAVE TOO MUCH PROBLEM WITH THAT. BUT WE WOULD LIKE TO CONSULT WITH OUR PARTNERS IN THE IEA ON THE FINAL LIST. WE CERTAINLY DO THINK THAT LIMITED OFFICIAL USE
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A NUMBER OF INTERNATIONAL ORGANIZATIONS SHOULD BE PRESENT -- IN PARTICULAR, THE IEA AS AN OBSERVER.

11. Q. WE'RE AWARE OF WHAT THE SECRETARY HAD TO SAY ABOUT THIS AT HIS NEWS CONFERENCE THE OTHER DAY, BUT THERE DOES NOT SEEM TO BE A COMMON APPROACH WITHIN THE U.S. GOVERNMENT -- PARTICULARLY, THE TREASURY DOESN'T SEEM TO BE ALL THAT SOLD ON THE FLOOR PRICE CONCEPT. IS THAT A CORRECT IMPRESSION?

12. A. YOU MAY HAVE SEEN THE STATEMENT THAT WAS ISSUED JOINTLY BY THE SECRETARY OF STATE, SECRETARY OF TREASURY, AND BY THE FEDERAL ENERGY ADMINISTRATOR IN THE COURSE OF LAST WEEK. THERE HAS BEEN A LOT OF SPECULATION ON THIS, AND THAT STATEMENT WAS DESIGNED TO PUT IT TO REST.

13. THE POSITION IS ESSENTIALLY THIS: THE UNITED STATES IS SEEKING AN INTERNATIONAL AGREEMENT ON THE DEVELOPMENT OF ALTERNATIVE SUPPLIES. WE HAVE ALTERNATIVE PROPOSALS ON THE TABLE BY WHICH THE OBJECTIVE OF THAT AGREEMENT COULD

BE ACCOMPLISHED. AND THE OBJECTIVE, AS YOU KNOW, IS TO FIRST, ACCELERATE AND INSURE THE DEVELOPMENT OF ALTERNATIVE SUPPLIES, EVEN THOUGH THEY MAY BE MORE -- IN FACT, WILL BE MUCH MORE COSTLY -- THAN THE CURRENT PRODUCTION COST OF OPEC OIL. SECONDLY: TO MAKE SURE THAT IN THE DEVELOPMENT OF THESE SUPPLIES, THE BURDEN OF INVESTMENT AND THE ADVANTAGES WHICH COME FROM IT, ARE EQUALLY SHARED AMONG ALL THE CONSUMING MEMBERS -- RECOGNIZING THAT EACH COUNTRY BENEFITS FROM EVERY NEW BARREL OF OIL OR OIL EQUIVALENT THAT IS PRODUCED IN THE AREA, BUT RECOGNIZING ALSO THAT EACH COUNTRY HAS DIFFERING OPPORTUNITIES FOR BRINGING ON NEW SOURCES.

14. NOW, THE TWO WAYS IN WHICH WE CAN SEE THAT DONE ARE, EITHER TO AGREE ON A COMMON FLOOR PRICE FOR OIL FOR THE IEA GROUP AS A WHOLE, WITH THAT MECHANISM TO BE IMPLEMENTED BY EACH COUNTRY IN ITS OWN MANNER AND ACCORDING TO ITS OWN DECISION, OR ALTERNATIVELY, TO ESTABLISH AN IEA-WIDE TARIFF ON IMPORTED OIL, TO BE PHASED IN GRADUALLY -- NOT PUT ON IMMEDIATELY -- AND TO APPLY TO ALL IMPORTS OF OIL FROM OUTSIDE THE GROUP.

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15. AS THE STATEMENT BY THE SECRETARIES AND THE FEA ADMINISTRATOR MADE CLEAR, WE ARE PREPARED TO ACCEPT EITHER ONE OF THESE MECHANISMS.

16. IN ADDITION, A PLAN HAS BEEN PUT FORWARD BY THE EUROPEAN COMMISSION WHICH CALLS FOR A THREE-TIER MECHANISM TO INSURE THE DEVELOPMENT OF ALTERNATIVE SOURCES. WE DO NOT THINK THAT THIS PLAN -- ALTHOUGH IT DIFFERS SOMEWHAT FROM OUR OWN APPROACH -- IS INCOMPATIBLE WITH OUR OWN APPROACH. AND WE THINK THAT THERE ARE POSSIBILITIES FOR COMPROMISE BETWEEN THE TWO PLANS. BUT THE IMPORTANT THING IS THAT ALL ELEMENTS OF THIS GOVERNMENT -- AND, OF COURSE, THE PRESIDENT, IN PARTICULAR -- FEEL THAT WE MUST HAVE AN AGREEMENT ON ALTERNATIVE SOURCES AND THE MEANS BY WHICH WE WILL PROTECT THEM BEFORE WE GO ON TO THE PRODUCER-CONSUMER CONFERENCE.

17. Q. WE UNDERSTAND, OF COURSE, THAT THE GOVERNMENT AS A WHOLE SUPPORTS THAT. BUT TO THE EXTENT THAT TREASURY OR STATE HAVE DIFFERENCES OF OPINION -- WHICH ARE PERFECTLY UNDERSTANDABLE; THE TWO DEPARTMENTS HAVE

DIFFERENT VIEWS -- WHO TILTS TO A AND B? ISN'T A THE FLOOR PRICE, THE STATE WAY -- AND B THE TREASURY WAY?

18. I THINK IT'S UP TO YOU TO JUDGE THAT. BUT FROM INFORMATION AVAILABLE TO YOU, THE IMPORTANT THING I THINK IS THAT BOTH AGENCIES -- AND ALL AGENCIES -- SUPPORT THE

NEED FOR AGREEMENT ON ONE OR THE OTHER. THE UNITED STATES
COULD ADOPT ONE OR THE OTHER.

19. Q. WHAT KIND OF A RESPONSE HAVE YOU HAD FROM OTHER
COUNTRIES TO INVEST IN DEVELOPING ALTERNATE SOURCES OF
ENERGY? AND, TWO, DO YOU ENVISION BRINGING THE CURRENT
PRODUCERS INTO THAT PROGRAM?

20. A. WELL, IN THE FIRST INSTANCE, WE'RE TALKING ABOUT
A JOINT EFFORT BY THE CONSUMING COUNTRIES AS A WHOLE,
THINKING THAT THE IMPORTANT THING IS FOR THEM TO MASTER
THEIR OWN DESTINY, BE IN CHARGE OF THEIR OWN SUPPLIES
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OF OIL AND BE ABLE TO REDUCE THEIR DEPENDENCE ON OUTSIDE
SUPPLIES AND -- IN THIS INSTANCE -- ON OUTSIDE CONTROL
-- SO THAT IT IS A PROGRAM WHICH IS BASICALLY FOR THE
CONSUMING COUNTRIES.

21. WE HAVE HAD A GREAT DEAL OF INTEREST IN THE PROPOSALS
THAT WERE PUT FORWARD FOR A JOINT CONSORTIUM APPROACH
-- ON THE ONE HAND, TO SYNTHETIC FUELS; AND, ON THE OTHER
HAND, TO DEVELOPING MORE ADVANCED FORMS OF ENERGY
-- SUCH AS SOLAR, FUSION, AND GEOTHERMAL.

22. CLEARLY, THE CAPITAL COSTS IN ALL OF THESE FIELDS
ARE VERY HIGH. BUT THE RISK IN EACH ONE OF THESE FIELDS

IS ALSO VERY HIGH, AND EACH COUNTRY HAS AN INTEREST IN
DIVERSIFYING ITS OWN INVESTMENT AND DIVERSIFYING THE RISK
IT MUST TAKE.

23. SO I THINK THE ANSWER TO THAT IS THAT WE HAD A VERY
ENCOURAGING RESPONSE.

24. Q. DO YOU SEEK OR DO YOU NEED AN AGREEMENT ON THE
FLOOR PRICE OR TARIFF PRIOR TO A MEETING OF CONSUMERS
AND PRODUCERS?

25. A. WELL, WE BELIEVE WE MUST HAVE AN AGREEMENT ON
AN ALTERNATIVE SOURCES POLICY. AND WE HOPE THAT IT WILL

BE ON ONE OF THE TWO PROPOSALS PUT FORWARD BY THE UNITED
STATES. BUT RECOGNIZING THAT THERE WILL INEVITABLY,
INTERNATIONALLY, BE A COMPROMISE; WE WOULD ENVISAGE THAT
THERE MAY BE ELEMENTS OF COMPROMISE WITH THE EUROPEAN PLAN
OR WITH OTHERS.

26. Q. BEFORE THE MEETING?

27. A. -- BUT WE THINK THAT A COMPROMISE SOLUTION ON

THIS ISSUE MUST BE REACHED BEFORE DECIDING TO GO TO THE
PREPARATORY MEETING.

28. Q. AS A PRACTICAL MATTER, YOU WOULD HAVE TO DO THAT
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THIS WEEK; WOULDN'T YOU?

29. A. WELL, WE HOPE WE CAN DO IT THIS WEEK.

30. Q. AT THIS MEETING?

31. A. AT THIS MEETING.

32. Q. COULD YOU CLARIFY ON YOUR ORIGINAL RESPONSE TO
THE FRENCH PROPOSAL? YOU SAID THE UNITED STATES WAS NOT
SURPRISED. AND YET THERE ARE AT LEAST TWO ELEMENTS TO
THE FRENCH PROPOSAL THAT EVIDENTLY ARE NOT A MATTER OF
AGREEMENT -- NAMELY, THE COMPOSITION OF THE GROUP, AND
THE TIMING OF THE FRENCH ANNOUNCEMENT. COULD YOU AMPLIFY
SOMEWHAT MORE ON THE COMPOSITION AND ON THE TIMING HERE?
ESPECIALLY IN VIEW OF THE FACT THAT YOU ADD NOW, IN
RESPONSE TO QUESTIONS, THAT A COMPROMISE SOLUTION ON THE
FLOOR PRICE IS REQUIRED, IN THE U.S. VIEW, PRIOR TO THE
PRODUCER-CONSUMER MEETING.

33. A. WELL, I THINK THE WAY TO PUT IT IS THIS: THAT
WE HAVE HAD ALL ALONG, WITH THE FRENCH, BASICALLY AN
UNDERSTANDING ABOUT WHEN THE INVITATIONS TO A PREPARATORY
MEETING BEFORE A PRODUCER-CONSUMER CONFERENCE COULD BE
ACCEPTED. AND WE'VE UNDERSTOOD EACH OTHER I THINK VERY
WELL ON THAT SINCE MARTINIQUE AND HAD THE SAME VIEW OF
THAT.

34. GIVEN THAT UNDERSTANDING, THERE WAS NO NEED TO
ATTEMPT TO REACH AN AGREEMENT ON WHEN THE INVITATIONS
WOULD BE ISSUED. NOW, I THINK THAT FRANCE UNDERSTANDS
VERY WELL -- AND SUPPORTS THE NOTION -- THAT CONSUMER
SOLIDARITY MUST BE ACHIEVED BEFORE GOING TO THE PRE-
PARATORY MEETING, AND THAT THIS IS THE WORK OF THE IEA,

AND THAT THE PREPARATORY MEETING WILL NOT BE HELD UNTIL
THAT HAS BEEN ACHIEVED.

35. THAT'S WHAT WE'RE ABOUT NOW AND I THINK THAT'S VERY
WELL UNDERSTOOD AND ACCEPTED BY THE FRENCH. SO I DON'T
THINK THERE'S ANY DIFFERENCE ON THAT POINT.
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36. Q. WOULD THE UNITED STATES GO IF THE IEA IS NOT INVITED AS AN OBSERVER WHILE THE EEC COMMISSION HAS BEEN?

37. A. I DON'T ENVISAGE THAT CONTINGENCY WOULD ARISE. I WOULD IMAGINE THAT OTHER POTENTIAL PARTICIPANTS IN THIS SORT OF A MEETING WOULD SEE THE NEED TO HAVE THE REAL FORCES IN THE OIL PICTURE REPRESENTED, AT LEAST AS OBSERVERS, AT SUCH A MEETING. SO I WOULDN'T ANTICIPATE THAT THIS WILL BE A PROBLEM.

38. Q. WHAT DO YOU EXPECT TO COME OUT OF THE OPEC MEETING IN ALGIERS?

39. A. WELL, THE OPEC, AS YOU KNOW, IS FACED WITH A DIFFICULT SHORT-TERM PROBLEM. AS AGAINST PRODUCTION OF 32 AND 1/2 MILLION BARRELS A DAY BEFORE THE CRISIS IN OCTOBER 1973, THEY ARE NOW PRODUCING 27 AS A GROUP. AND WE ESTIMATE THAT IN THE COURSE OF THE SUMMER PRODUCTION WILL FALL TO 25 BEFORE TWO FACTORS TAKE OVER: ONE, RE-NEWED ECONOMIC GROWTH; AND, TWO, THE SEASONAL CHANGE.

40. AT THE SAME TIME, THEIR CAPACITY HAS RISEN QUITE RAPIDLY. IT WAS ABOUT 33 AND 1/2 MILLION BARRELS A DAY IN OCTOBER OF '73. IT IS NOW 38 AND 1/2 OR A LITTLE BIT MORE -- ALMOST 39. IT WILL BE, BY THE END OF THE SUMMER, 41 MILLION BARRELS A DAY.

41. NOW, THIS WIDENING DIVERGENCE BETWEEN CAPACITY AND PRODUCTION IS DUE TO A NUMBER OF FACTORS. IT'S DUE, FIRST OF ALL, TO COMPLETION OF INVESTMENT PLANS THAT HAVE BEEN LAID ON FOR A NUMBER OF YEARS AND THAT ARE FOLLOWED THROUGH NOTWITHSTANDING THE SLOW-DOWN IN DEMAND.

42. ON THE DEMAND SIDE, IT'S DUE TO THE FOLLOWING FACTORS: TWO SOFT - TWO WARM - WINTERS IN A ROW; THE WORLDWIDE RECESSION; SOME PRICE RESISTANCE; AND, FINALLY, A SEASONAL PATTERN OF DIS-INVENTORY -- WHICH IS PARTICULARLY MARKED THIS YEAR. THAT IS TO SAY, IT PAYS THE CONSUMING COUNTRY OIL COMPANIES TO RUN DOWN THEIR STOCKS DURING THIS PERIOD -- BEGIN BUILDING THEM UP
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LATER ON IN THE YEAR -- RATHER THAN TO PAY CARRYING COSTS OF THOSE STOCKS AT THE PRESENT TIME.

43. NOW, THIS MEANS -- ALL OF IT -- THAT OPEC IS GOING TO HAVE TO FIND A WAY TO ALLOCATE THE CUTS IN PRODUCTION WHICH HAVE ALREADY TAKEN PLACE AND ALSO TO MAKE SOME NEW CUTS BEFORE THE END OF THE SUMMER.

44. NOW, THAT'S NOT EASY. AS YOU KNOW, A NUMBER OF COUNTRIES SPONTANEOUSLY TOOK THESE CUTS IN THE COURSE OF LAST SUMMER IN ORDER TO END WHAT WAS A SURPLUS AT THAT TIME. BUT SOME OF THEM, LIKE LIBYA, WENT TO VERY LOW LEVELS OF PRODUCTION. LIBYA WENT DOWN TO 40 PERCENT OF CAPACITY. I THINK THAT'S TOO LOW. ANOTHER COUNTRY, LIKE ABU DHABI -- A BIG SPENDING PROGRAM, ON THE ONE HAND, AND SHARPLY REDUCED PRODUCTION, ON THE OTHER HAND, -- GOT INTO A FINANCIAL BIND, AND THEY WANT MORE.

45. NOW, WHAT IS HAPPENING AT THE PRESENT TIME IS THAT THESE COUNTRIES ARE DICKERING WITH THE QUALITY DIFFERENTIALS IN ORDER TO REDISTRIBUTE THE LIFTINGS. THAT'S WHAT HAPPENED IN THE CASE OF ABU DHABI. THE BASIC PRICE IS INTACT; THE BASIC CREDIT TERMS ARE, MORE OR LESS, INTACT -- AND THEY MAY BE MOVING A LITTLE BIT. BUT THE QUALITY DIFFERENTIAL IS REDISTRIBUTING THE LIFTINGS.

46. NOW. MORE OF THAT IS GOING TO TAKE PLACE. IT'S GOING TO BE UNCOMFORTABLE AND DIFFICULT FOR OPEC. AND WE THINK THAT THERE IS GOING TO BE, IN THE COURSE OF THIS, SOME CLANDESTINE PRICE CUTTING -- EITHER IN THE FORM OF LONGER CREDIT TERMS OR IN THE FORM OF REALLY UNREPRESENTATIVE QUALITY DIFFERENTIALS, OR POSSIBLY IN THE FORM OF SOME OUTRIGHT CUTS.

47. Q. YOU DON'T EXPECT ALGIERS TO APPROVE A CUT IN PRODUCTION IN ORDER TO KEEP THE PRICE AT THE CURRENT LEVEL?

48. A. WELL, I WAS GOING TO GO ON TO SAY THAT THIS NEGOTIATION HAS TO TAKE PLACE AMONG THE OPEC COUNTRIES LIMITED OFFICIAL USE
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ANYWAY. I PERSONALLY THINK THAT AN OUTRIGHT AGREEMENT ON PRODUCTION-SHARING -- WHICH IS WHAT YOU'RE TALKING ABOUT.

49. Q. YES.

50. A. WOULD BE PARTICULARLY DIFFICULT FOR THE OPEC COUNTRIES TO FACE UP TO. I THINK THAT THEY HAVE A

TENDENCY TO DO IT INDIRECTLY BY THE QUALITY DIFFERENTIALS, BY OPERATING ON THE OTHER VARIABLES. AND THAT'S WHAT THEY'RE TRYING TO DO NOW.

51. NOW, THEY'RE IN A DIFFICULT POSITION, IN THE SHORT TERM; AND THIS IS NOT GOING TO BE EASY FOR THEM. ON THE OTHER HAND, IT'S OBVIOUS TO THEM -- AND TO US -- THAT WHEN WE GET BACK TO NORMAL ECONOMIC GROWTH AND

FULL EMPLOYMENT, WHEN WE GET BACK TO A NORMAL WINTER -- OR EVEN A COLD WINTER; WHICH WE HAVEN'T HAD NOW FOR THREE YEARS -- THAT THE DEMAND FOR OIL IS GOING TO INCREASE. THAT'S WHY IT'S ESSENTIAL FOR US TO GO AHEAD WITH OUR PROGRAM OF CONSERVATION, BECAUSE WE HAVE TO HAVE THAT IN PLACE IN ORDER TO AVOID SUBSTANTIAL INCREASES IN OUR DEPENDENCE ON IMPORTED OIL AND IN THE PRICE OF OIL BEGINNING THIS FALL. IF WE DON'T HAVE THAT IN PLACE WE'LL SUFFER.

52. Q. I WAS WONDERING IF WE CAN PUT ANY MORE THAN NEGLIGIBLE PRESSURE -- SPENDING PRESSURE -- THROUGH THESE DEVELOPMENT COMMISSIONS. IN OTHER WORDS, I ASSUME THIS HAD AN IMPACT ON ABU DHABI. BUT CAN IT HAVE AN IMPACT ON A REALLY MAJOR PRODUCER -- SOMEONE LIKE IRAN OR SAUDI ARABIA?

53. A. WELL, THE COMMISSIONS ARE NOT DESIGNED AS PRESSURE INSTRUMENTS.

54. Q. I THOUGHT WE'RE NOT UNHAPPY WITH THE BY-PRODUCT -- THAT THEY NEED THE CASH -- YOU KNOW, PRODUCING A NEED FOR READY CASH AND, THEREFORE, THEY CAN'T CUT BACK PRODUCTION TOO MUCH.
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55. A. SURE. WE WOULD VERY MUCH LIKE TO SEE THAT MONEY SPENT. WE WOULD LIKE TO SEE IT SPENT FOR EXPORTS OF AMERICAN GOODS THAT THOSE COUNTRIES NEED AND CAN USE. AND THE BILATERAL COMMISSIONS HELP US ACHIEVE THAT END.

56. AS I SAY, I DON'T THINK THEY SHOULD BE INTERPRETED AS A MEANS OF PRESSURE; BUT THE MORE OF THAT THAT CAN BE SPENT IN THE UNITED STATES, THE BETTER IT IS, AS FAR AS WE'RE CONCERNED.

57. Q. WELL, MY QUESTION REALLY IS: DO THEY HAVE ANYTHING MORE THAN A NEGLIGIBLE IMPACT THOUGH ON THE PRICE OF OIL?

58. A. WELL, I WOULD SUGGEST THAT -- OH, ON THE PRICE OF OIL.

59. Q. WELL, ON PRODUCTION, AND AS A RESULT OF THE PRICE.

60. A. THE BILATERAL COMMISSIONS -- IN FACT, ALL PROMOTION EFFORTS AT INCREASING EXPORTS OF THIS COUNTRY AND THE OTHER CONSUMING COUNTRIES WILL HAVE, I THINK, OVER TIME, A SIGNIFICANT EFFECT ON THE PRICE EQUATION.

61. WHAT WE'VE GOT, BASICALLY, IS THIS KIND OF A SITUATION: WE WOULD LIKE TO SEE THE OVERALL VOLUME OF OPEC EXPORTS, IN NUMBERS OF BARRELS PER DAY, HELD ROUGHLY CONSTANT OVER THE NEXT THREE OR FOUR YEARS -- AS A RESULT OF, FIRST, CONSERVATION EFFORTS; THEN THE DEVELOPMENT OF ALTERNATIVE SOURCES. THIS WOULD TEND TO FIX THEIR INCOME, IN REAL TERMS, AT ROUGHLY A CONSTANT LEVEL. AT THE SAME TIME, TWO OTHER FACTORS WOULD BE IN PLAY. ONE IS THE COMING ON OF ALTERNATIVE SOURCES AT VARIOUS PLACES IN THE WORLD -- FIRST, OF COURSE, NORT SEA OIL; THEN ALASKA; THEN, AFTER THAT, MEXICAN OIL; AFTER THAT, INCREASE IN OIL FROM MALAYSIA, CHINA, PERU. THIS WILL TEND TO PUT SOME PRESSURE ON THE INTERNATIONAL OIL MARKET. SECONDLY, WE WANT TOSEE THE OVERALL VOLUME OF THEIR SPENDING MOVING UP ON THAT FIXED INCOME. AND IT IS MOVING UP LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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FAST. ALGERIA IS ALREADY IN DEFICIT NOW. IN TWO YEARS' TIME, IRAN EXPECTS TO BE IN DEFICIT. IT WILL BE FOLLOWED, PROBABLY VERY CLOSELY, BY VENEZUELA, BY INDONESIA AND NIGERIA -- PERHAPS SOME OF THE SMALLER COUNTRIES.

62. SO NOW THOSE COUNTRIES, AS THEY MOVE INTO DEFICIT, WILL, IN THE FIRST INSTANCE, EITHER BORROW AGAINST THEIR ASSETS OR THEY WILL RUN THE ASSETS OFF -- SO THAT YOU WON'T SEE EFFECTS IN THE MARKETPLACE IMMEDIATELY. BUT IT'S A MATTER OF TIME BEFORE THAT HAPPENS.

63. SO THERE ARE THREE FORCES OPERATING HERE, AND THEY ALL HAVE TO BE IN PLACE IN ORDER TO GET THE DESIRED RESULT.

64. Q. ISN'T THERE A FOURTH FORCE? YOU TALKED ABOUT FIXED INCOME.

65. A. IN REAL TERMS.

66. Q. BUT DOESN'T INFLATION AFFECT THIS FIXED INCOME?

67. A. WELL, I THINK WE OUGHT TO BE PRUDENT IN OUR CALCULATIONS; AND I THINK WE SHOULD NOT CALCULATE ON BEING ABLE TO CAUSE THE REAL INCOME OF THESE COUNTRIES TO DECLINE IN THE SHORT RUN AS A RESULT OF INFLATION. AS YOU KNOW, THEY THEMSELVES ARE VERY SENSITIVE TO THIS POSSIBILITY. AND I THINK THAT ALTHOUGH WE CAN HOPE FOR SOME EROSION IN REAL INCOME AS A RESULT OF THE KIND OF PHENOMENA WE'RE SEEING NOW, I DON'T THINK WE SHOULD BASE OUR POLICY ON THAT EXPECTATION.

68. Q. ARE YOU HOPING TO AGREE AT THIS MEETING THIS WEEK ON AN ACTUAL FLOOR PRICE OR JUST ON THE MECHANISM BY WHICH THE FLOOR PRICE SHOULD BE FIXED?

69. A. WELL, I DO NOT YET KNOW WHICH OF THE TWO APPROACHES THAT WE HAVE OUTLINED WILL RECEIVE THE GENERAL APPROVAL OF THE GROUP. BUT I THINK THAT WE CERTAINLY WILL WANT TO HAVE IN THE COURT, BEFORE WE GO ON TO THE PRE-PARATORY MEETING, AN UNDERSTANDING NOT ONLY AS TO THE MECHANISMS THAT WILL BE USED TO STIMULATE AND PROTECT LIMITED OFFICIAL USE
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ALTERNATIVE SOURCES BUT ALSO AS TO THE APPROXIMATE LEVEL AT WHICH THEY WILL BE PROTECTED AND STIMULATED.

70. Q. WELL, WHAT IS THE ACCEPTABLE LEVEL TO YOU? THE EUROPEANS ARE THINKING ABOUT A MUCH LOWER FLOOR PRICE THAN WE DO.

71. A. YOU CAN'T ASK ME -- YOU CAN, BUT I WON'T ANSWER YOU.

72. Q. I KNOW. I'LL TRY LAUGHTER.

73. A. WE DISCUSS ALL ASPECTS OF OUR OWN POSITION BEFORE WE GO TO THE MEETING.

74. I THINK THAT THE KEY QUESTION IS THIS: THAT WE WILL HAVE TO EXAMINE TOGETHER HOW MUCH ADDITIONAL PRODUCTION CAN BE OBTAINED AT VARIOUS LEVELS OF PROTECTION OR STIMULUS, AND WHAT THE IMPACT OF THOSE WILL BE ON THE OVERALL MARKET BALANCE.

75. I THINK WE WILL FIND THAT WHEN WE DO THAT, THAT THERE ARE SOME PRETTY CLEAR POINTS AT WHICH IT WOULD BE

ADVANTAGEOUS TO PROTECT OUR ALTERNATIVE SOURCES AS A GROUP -- TAKING INTO ACCOUNT THE NORTH SEA; TAKING INTO ACCOUNT CANADA, THE UNITED STATES, COAL IN WEST GERMANY, AND NUCLEAR POWER IN EVERY COUNTRY.

76. AND I THINK THAT AN IMPORTANT FACTOR TO BE UNDERLINED IS THAT THEY ALL HAVE AN INTEREST IN MAKING SURE THAT OUR NEW NUCLEAR POWERPLANTS ARE, IN FACT, NOT GOING TO BE OUTCOMPETED BY IMPORTED ENERGY. AND THIS GIVES A VERY IMPORTANT BASE POINT TO LOOK AT.

77. Q. ISN'T THERE A POSSIBILITY THOUGH THAT YOU MIGHT HAVE AN OIL FLOOR PRICE FIXED AT 8 DOLLARS A BARREL, SAY, AND SHALE OIL COSTING 9 DOLLARS A BARREL TO PRODUCE AND THAT IT WOULD INVOLVE YOU IN A SUBSIDY OF THE MORE EXPENSIVE OIL?

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78. A. IF YOU CAN PRODUCE SHALE OIL AT 9 DOLLARS A BARREL, I SUGGEST YOU LEAVE JOURNALISM AND GO OUT IMMEDIATELY. LAUGHTER.

79. Q. GOODBYE;

80. -- AND MAKE SOME MONEY.

81. BUT THE ANSWER TO THAT QUESTION IS YES -- THAT ALL COUNTRIES, I THINK, ENVISAGE THAT SYNTHETICS WOULD BE SUBJECT TO A SPECIAL REGIME WHICH WOULD INVOLVE SOME FORM OF SUBSIDY -- PROBABLY, AT LEAST, A COST-SHARING ARRANGEMENT -- POSSIBLY, DEFICIENCY PAYMENTS -- IN ADDITION TO WHATEVER BASIC LEVEL OF PROTECTION WAS DECIDED.

82. IN THE CASE OF COAL GASIFICATION, IT LOOKS NOW AS TOUGH THAT MIGHT COME IN AT 12 DOLLARS A BARREL. AND IN CASE OF COAL GASIFICATION IN GERMANY, WE DON'T YET KNOW WHAT THE COST MIGHT BE BECAUSE THEY DEPEND VERY MUCH ON THE USE OF A PROCESS THAT WOULD GASIFY BELOW THE SURFACE, WHICH HAS YET TO BE FULLY DEVELOPED.

83. Q. DO YOU EXPECT OPEC TO BE AN OBSERVER AT THE PRODUCER-CONSUMER MEETING?

84. A. WELL, THERE HAS BEEN A SUGGESTION THAT IT WOULD BE. THAT IS CLEARLY UP TO OPEC AND OTHER PARTIES TO DECIDE, BUT WE WOULD HAVE NO OBJECTION.

85. Q. AS I UNDERSTAND THE RATIONALE FOR THE 2 MILLION BARREL A DAY TARGET FOR CONSERVATION, IT IS TO KEEP OPEC VOLUME CONSTANT. AND I PRESUME THAT MEANS CONSTANT AT A LEVEL WHICH NOW INVOLVES SOMETHING OVER 10 MILLION BARRELS A DAY IN SHUT-IN CAPACITY AND WILL GO UP TO SOMETHING LIKE 15 MILLION BARRELS A DAY OF SHUT-IN CAPACITY BY THE END OF THE SUMMER. AMIDST THE DISPARITY BETWEEN 2 MILLION BARRELS A DAY AND 15 MILLION BARRELS A DAY, THERE SEEMS TO BE SOME CONFUSION.

86. A. O.K. WELL, LET ME SAY HOW THIS WORKS.

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87. Q. IF THE PRICE HASN'T DROPPED NOW, HOW WILL THE PRICE DROP LATER ON?

88. A. O.K. IF WE DO NOTHING, THEN THE OPEC PRODUCTION

-- WHICH I SAID WAS ABOUT 32 1/2 MILLION BARRELS A DAY BEFORE THE CRISIS -- IT IS NOW, FOR THESE EXTRA-ORDINARY REASONS I'VE DISCUSSED -- THE RECESSION, WARM WINTER, THIS INVENTORY -- GOING TO AVERAGE ABOUT 27 AND 1/2 MILLION FOR THIS YEAR. BUT WITH THE SEASONAL PATTERN THAT I INDICATED TO YOU IT IS NOT ONLY GOING TO GO UP TO 32 AND 1/2 MILLION AGAIN; IT'S GOING TO GO SUBSTANTIALLY OVER THAT IN 1977, IF, I REPEAT, WE DO NOTHING TO CONSERVE.

89. AND THERE ARE SEVERAL REASONS FOR THIS. ONE IS THE GROWTH OF THE EUROPEAN ECONOMIES AND OUR OWN. THE SECOND IS THE STAGNATING PETROLEUM PRODUCTION IN THIS COUNTRY AND THE DECAYING POSITION OF OUR NATURAL GAS -- SO THAT IN THE CASE OF THE UNITED STATES, WHEREAS IMPORTS ARE ABOUT 6 AND 1/2 MILLION BARRELS A DAY NOW, WITH NO NEW ACTION WE WOULD BE GOING TO AS MUCH AS 9 MILLION BARRELS A DAY BY THE END OF 1977 -- A SUBSTANTIALLY INCREASED DEPENDENCY.

90. NOW, THE 2 MILLION BARRELS A DAY OVERALL IMPORT REDUCTION TARGET BY THE END OF THIS YEAR ON WHICH IEA MEMBERS ARE AGREED, AND WHAT WE HOPE WILL BE AN EQUIVALENT MATCHED TARGET BY THE END OF 1977 -- AN EQUIVALENT OF DOUBLE THE AMERICAN PROGRAM, WHICH IS 2 MILLION BARRELS A DAY REDUCTION BY THE END OF 1977 (THAT'S NOT YET AGREED, BUT IT HAS BEEN DISCUSSED) THAT KIND OF PROGRAM WOULD KEEP THE TOTAL OF OPEC EXPORTS FROM GOING OVER THE PRE-EMBARGO LEVEL.

91. NOW, WHEN WE COMBINE THAT KIND OF CONSTANT LEVEL

OF EXPORTS WITH THE INCREASE IN OPEC IMPORT DEMAND THAT YOU MENTIONED AND WITH THE BEGINNING OF ALTERNATIVE SOURCES -- THE NORTH SEA, AND ALASKA, AND MEXICO -- THEN YOU'VE GOT A KIND OF THREE-WAY SQUEEZE IN WHICH YOU'VE GOT SOME CHANCE TO BEGIN TO GET PRICE TO MOVE DOWN.

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92. THAT'S THE FIRST CHANCE WE'LL HAVE. IF WE DON'T TAKE THAT NOW AND WE LET THE OPEC EXPORTS GROW SUBSTANTIALLY FROM THEIR PRE-EMBARGO LEVEL, THEN THE EXCESS CAPACITY PROBLEM THAT THEY'RE NOW JUST BEGINNING TO COPE WITH WILL BECOME MUCH EASIER FOR THEM TO DEAL WITH. THEY'LL SLOW DOWN THEIR INCREASES IN CAPACITY; AND INSTEAD OF HAVING THEIR PRESENT LEVEL OF 11 MILLION BARRELS SHUT-IN -- ALMOST 12 BARRELS SHUT-IN -- THEY'LL MOVE UP TO A SITUATION IN WHICH THEY HAVE ONLY 6- OR 7-. THEN THERE'S ABSOLUTELY NO HOPE OF A PRICE BREAK.

93. Q. IN TERMS OF TIME, THIS IS SOMETHING LIKE 1977.

THIS IS THE TIME--

94. A. 1977.

95. Q. -- THERE WOULD BE A GLUT OF THE PROPORTIONS
YOU'RE SPEAKING OF.

100.A. I'M NOT TALKING ABOUT A GLUT. ITS GOING TO BE
A CHANGE IN THE MARKET BALANCE, WHICH IS REQUIRED IN
ORDER TO BRING THE PRICES DOWN.

101.NO; I DON'T THINK THERE WILL BE A GLUT.

102. NOW, WHAT THIS MEANS FOR US IS, I THINK, VERY
SIMPLE: IF WE DON'T DO ANYTHING -- IF WE SAY, FOR
EXAMPLE, "LET'S DEAL WITH THE RECESSION FIRST. THEN
AFTERWARDS WE'RE GOING TO DEAL WITH THE OIL PROBLEM."
-- THEN WHAT HAPPENS IS THAT WE GO FROM OUR 6 AND 1/2
MILLION BARRELS A DAY UP TO MAYBE 9 MILLION BY THE END
OF 1977. IF WE GET HIT WIT AN EMBARGO THEN -- AN ARAB
EMBARGO ONLY -- IT'S GOING TO COST US AT LEAST TWO
MILLION JOBS AND 40 TO 80 BILLION DOLLARS IN GNP.

103. WHAT THAT WOULD DO WOULD BE TO WIPE OUT ALL THE
GROWTH WE WOULD ACHIEVE AND ALL THE NEW JOBS WE WOULD
HAVE AS WE MOVE FROM THE BOTTOM OF THE RECESSION UP TO
WHAT WE HOPE WILL BE A MUCH BETTER ECONOMIC PICTURE
AT THE END OF 1977.

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104. AND THAT'S THE REASON YOU CAN'T SAY, "LET'S DO
ONE FIRST AND THEN THE OTHER AFTERWARDS." YOU'VE GOT TO
DO BOTH TOGETHER. OTHERWISE, YOU'RE NOT SURE THAT YOU'RE
GOING TO HAVE THE ECONOMIC GROWTH THAT YOU HOPED FOR.

105. Q. YOUR REMARK ABOUT OBTAINING A REAL PRICE IMPLIES
INDEXATION. WHEN ARE YOU GOING TO COME OUT FRANKLY TO
CALL FOR THIS?

106. A. WELL, IT DOESN'T IMPLY INDEXATION. I THINK
MY REMARK IMPLIES ONLY THAT IT WOULD BE IMPRUDENT FOR US
TO BASE OUR PLANS ON THE NOTION THAT THE PRICE IS GOING
TO BE INEVITABLY ERODED BY INFLATION. AS I SAY, THIS IS
SOMETHING THAT OPEC IS VERY SENSITIVE TO AND WILL MAKE
EVERY EFFORT TO PREVENT. SO THIS IS A QUESTION OF SOUND
PLANNING MUCH MORE THAN AN ESPOUSAL OF A MECHANISM FOR
OFFSETTING INFLATIONARY PRICE INCREASES.

107. OUR POSITION REMAINS THAT WE DO NOT LIKE
INDEXING. WE DO NOT THINK A MECHANICAL APPROACH TO THE
PROBLEM OF MAINTAINING REAL VALUES IS A SOUND ONE. WE

HAVE SAID -- THE SECRETARY HAS SAID -- THAT WE WOULD NOT EXCLUDE THE DISCUSSION OF THE PRINCIPLE INVOLVED. BUT THAT DOES NOT IMPLY ANY POSITIVE LIKING FOR IT OR ANY EMBRACING OF IT AS A MATTER OF POLICY.

108. Q. YOU SAID THAT YOU EXPECT THAT THE 25 BILLION DOLLAR FUND WOULD BE SIGNED BEFORE THE END OF THIS MONTH. WILL YOU DO THAT BEFORE THE CONGRESSIONAL AUTHORIZATION HAS BEEN OBTAINED?

109. A. YES. WE'VE SAID ALL ALONG THAT WE WOULD SEEK A CONGRESSIONAL AUTHORIZATION IN ORDER TO MAKE GOOD A U.S. COMMITMENT, BUT IN THE NORMAL PRACTICE THE EXECUTIVE WILL SIGN FIRST, NOTING THAT EFFECTIVE IMPLEMENTATION OF THIS WILL DEPEND ON CONGRESSIONAL AUTHORIZATION.

110. WE HAVE HAD, OF COURSE, A NUMBER OF CONTACTS WITH THE RELEVANT COMMITTEES; AND WE FEEL THAT WE'LL LIMITED OFFICIAL USE
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GET A QUITE GOOD RESPONSE FROM CONGRESS.

111. Q. I WAS TRYING TO ESTABLISH WHETHER YOU REALLY ANTICIPATE HAVING THIS PRICE QUESTION RESOLVED AT THIS MEETING THIS WEEK.

112. A. YOU'RE REFERRING TO THE QUESTION OF THE FLOOR PRICE OR TARIFF?

113. Q. YES.

114. A. WE HOPE SO, AS I SAID. IF THAT IS NOT POSSIBLE: THEN IT WOULD SEEM THAT WE'D WANT TO HAVE A NEW IEA MEETING ALMOST IMMEDIATELY. BUT I'M NOT ENVISAGING THAT. I DO THINK THAT THERE'S A SUBSTANTIAL CONVERGENCE WITHIN THE IEA ON THE NEED FOR PROTECTING AND STIMULATING NEW SOURCES. AND I THINK THERE'S A SUBSTANTIAL CONVERGENCE ON THE NOTION THAT WE MUST NOW AGREE BASICALLY ON THE KIND OF MECHANISM WE'RE GOING TO ADOPT AND, ROUGHLY, THE LEVEL OF PROTECTION WE'RE GOING TO GIVE.

115. NOW, THAT WILL BE AN AGREEMENT IN PRINCIPLE. IT, OBVIOUSLY, WOULD TAKE A GREAT DEAL OF EFFORT TO IMPLEMENT THAT. ALL THE DETAILS WOULD REQUIRE MANY MONTHS TO BE SPELLED OUT, AND THERE WOULD HAVE TO BE VERY CLOSE AND CAREFUL CONSULTATIONS WITH ALL THE PARLIAMENTS CONCERNED BEFORE THE FINAL AGREEMENT WERE MADE.

116. BUT AN AGREEMENT IN PRINCIPLE WE HOPE FOR AND WE THINK IS POSSIBLE.

117. Q. TO SUM UP, THEN, DO YOU THINK THAT THE FRENCH MEETING CAN TAKE PLACE ON SCHEDULE WITH AMERICAN PARTICIPATION?

118. A. WE HOPE SO.

119. Q. THANK YOU. INGERSOLL

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